inter-city gas limited annual report for the year 1971

Officers

Robert G. Graham, *President*
N. W. Dubois, *P. Eng., Vice-President*
E. P. Rimmer, *P. Eng., Vice-President*
G. H. Lucas, *Vice-President*
Wayne R. Harding, *C.A., Vice-President*
R. T. Anderson, *Vice-President*
T. D. Bulloch, *Vice-President*

Directors

N. W. Dubois, *Edmonton, Alberta*
Robert G. Graham, *Winnipeg, Manitoba*
Wayne R. Harding, *Winnipeg, Manitoba*
Gordon P. Osler, *Toronto, Ontario*
E. P. Rimmer, *Winnipeg, Manitoba*
Alan Sweatman, *Q.C., Winnipeg, Manitoba*
David B. Weldon, *Toronto, Ontario*
T. D. Bulloch, *Winnipeg, Manitoba*

Solicitors

Thompson, Dewar, Sweatman

Auditors

McDonald, Currie & Co.

Transfer Agent and Registrar

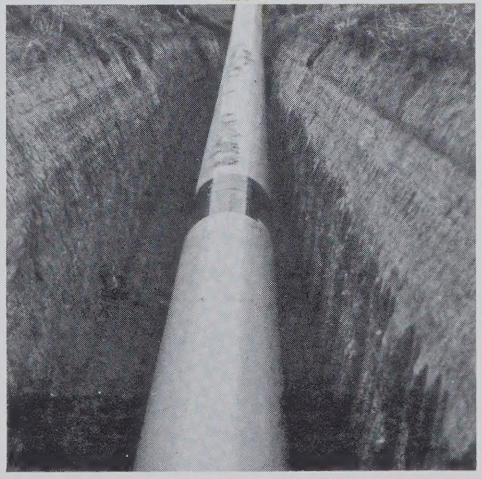
Canada Permanent Trust Company
Winnipeg, Toronto, Calgary and Vancouver

Head Office

1500 Richardson Building
One Lombard Place, Winnipeg, Manitoba

highlights

	1971	1970	Percent Change
For the Year			
Revenue	$22,259,294	$13,403,195	66%
Net Income	966,010	676,382	43%
Per Common Share	51c	35c	46%
Dividend Rate Per Common Share	15c	12½c	20%
At Year End			
Long Term Debt	15,465,768	12,585,541	23%
Shareholders' Equity	9,861,177	7,576,837	30%
Total Assets	35,376,051	29,190,628	21%



president's message

R. G. Graham

1971 was a most successful year for your Company.

Net earnings per common share increased by 46% over 1970 to a record high of 51c per share.

Consolidated revenues climbed \$8.8 million to a new high of \$22 million and total assets increased from \$29 million to \$35 million.

Common share dividends of 15c were paid for the year compared with 12c previously.

We have successfully extended our program of vertical expansion within the gas industry. In addition to expanding our gas utility and pipeline operations, we have captured a significant share of the Canadian market for domestic heating equipment and have initiated participation in the exploration for and development of gas reserves.

GAS UTILITY AND PIPELINE OPERATIONS

We now have natural gas distribution systems in 26 communities in Manitoba, 34 in Minnesota and 3 in Ontario. Our investment in these utility systems is approximately \$12.2 million in Minnesota, \$.6 million in Ontario and \$5.6 million in Manitoba. Pipeline transmission systems serving these communities represent an additional investment of \$10.4 million.

Our new \$7.7 million pipeline to International Falls and Fort Frances commenced service to the paper plants of Boise Cascade Corporation at Fort Frances and International Falls early in the year. The major part of the distribution systems along the route of the line to serve residential and commercial customers in International Falls, Roseau and Baudette in Minnesota and Fort Frances, Rainy River and Emo in Ontario was completed at a cost of \$1,617,000. The number of customers serviced at the year-end represents a 9.8% increase over the previous year. About one-half of this increase came about in the above mentioned new communities; however, as these systems were placed in service late in the year, they did not contribute to net earnings during 1971.

In Minnesota we serve 50% and in Manitoba 70% of the potential domestic customers accessible to our established distribution systems. Accordingly, these systems represent a substantial market for the future.

With centralization of technical services and the experience of operating within a sizeable geographic area, the Company is styled to extend service into new areas or acquire existing systems through purchase with a minimum of additional overhead. We are actively pursuing expansion prospects in both Canada and the United States.

We have been fortunate in averting the hardship of the natural gas shortage that has been an issue of paramount significance in the United States. Although we could sell considerably more natural gas for industrial purposes within our Minnesota service area, our high margin sales have been amply provided for in our present natural gas contracts. Together with our recently completed peak shaving facility, our present contracts are projected to be adequate to service more than the normal annual increases in our residential and commercial customers in the foreseeable future.

Although your Company has been able to realize above average gains in profits over the past ten years and although we can predict a continuation of this successful trend, we have been obliged to initiate a number of rate increases within our present service areas. Like many companies, our domestic utility operations continue to experience increasing operating costs and the rate of sales to new customers on our existing distribution systems has not been sufficient to offset these escalating

costs. To date, this situation has been compensated by the addition of new distribution systems and expanded industrial service; however, we cannot indefinitely rationalize our present rates and service through future expansion. Accordingly, rate increases have been instituted in Minnesota communities in which our distribution systems have been operating for some time. Further, we are in the process of applying for rate increases throughout Manitoba where our level of earnings is substantially lower than the level ordinarily allowed by regulatory agencies. Notwithstanding rate increases, your management is emphasizing increased efficiency in the divisions and departments which are not contributing their fair rate of return.

REVIEW OF FINANCING

During the year, our common shares were split two for one and both our funded debt and equity were increased by new security issues.

The new funded debt took the form of a privately placed $4.5 million Joint and Several Promissory Note due January 1, 1991 (collaterally secured by $4.5 million U.S. 8% First Mortgage Bonds due January 1, 1991). This financing was assumed by our wholly owned subsidiary companies, Inter-City Minnesota Pipelines Ltd. and ICG Transmission Limited and was negotiated in 1969 as part of the financing of the International Falls/Fort Frances pipeline project which is now in operation. A construction bank loan of $2 million, outstanding and included in funded debt at December 31, 1970, was repayed out of the proceeds of this issue. Therefore, the net effect of the transaction is a $2.5 million increase in funded debt.

In July, a public offering was made of $2 million Cumulative Redeemable Second Preference Shares, 7½%, Series B of $20 par value and 300,000 Common Share Purchase Warrants. These new warrants entitle the holder to purchase one common share of the Company for $6 until July 31, 1976 and for $7 until July 31, 1981. The net proceeds from this offering were used to purchase petroleum and natural gas rights, to conduct natural gas exploration and development and to pay for the acquisition of the Furnasman manufacturing and distributing facilities. It was a feature of this offering that the Company did not create an additional series of Share Purchase Warrants. Earlier in the year, we were able to negotiate the surrender for reconstitution of warrants previously issued with a private placement of First Mortgage Bonds. This same number of warrants were sold with the offering of the redeemable preference shares at approximately the price paid for surrender. In effect, the same warrant was used in the marketing of two separate security issues and the terms of the warrants were upgraded so as to reduce the term from fifteen years to ten years and to increase the exercise price from $3.75 to $6.00 and $7.00 as mentioned above.

The securities of your Company now available for public investment are summarized in the following table. The common shares, preference shares and warrants are listed on The Toronto Stock Exchange and The Winnipeg Stock Exchange. The debentures are traded by investment dealers in the over-the-counter market. Securities shown on our balance sheet and not included below have been privately placed and are owned by institutional investors.

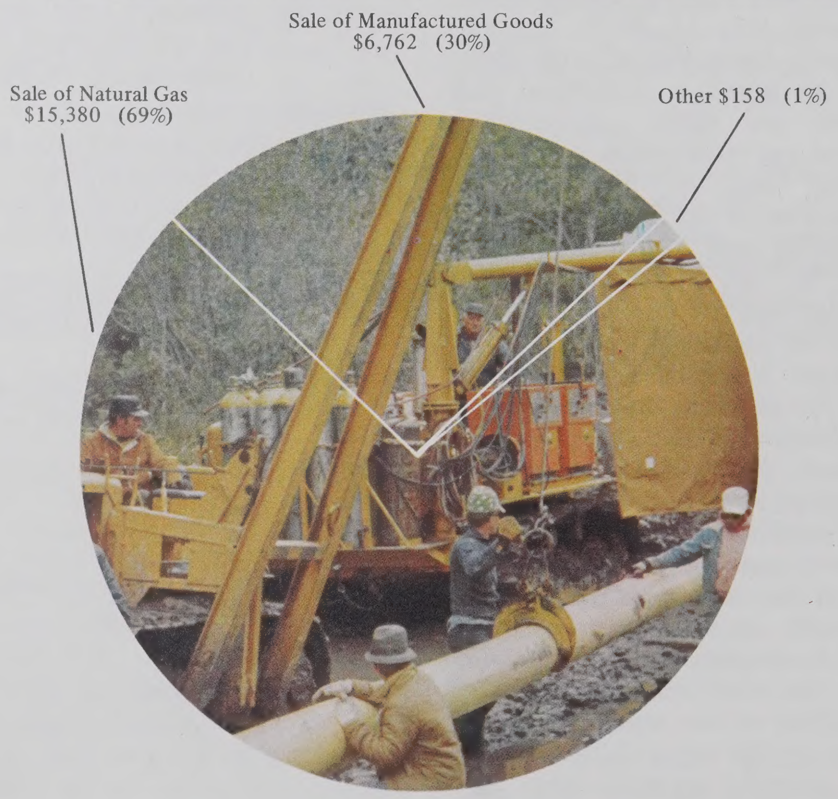
1,323,868	Common Shares
353,480	A Warrants (right to buy common at $4.25 until Oct. 31, 1973)
300,000	B Warrants (right to buy common at $6.00 until July 31, 1976 then at $7.00 until July 31, 1981)
113,828	6½% Series A Second Preference Shares, $20 par value
100,000	7½% Series B Second Preference Shares, $20 par value
$ 475,500 (principal amount)	7% Debenture Series A maturing 1979
$1,235,000 (principal amount)	7% Debenture Series B maturing 1982

In addition, there are 59,500 Class A shares of our subsidiary. Inter-City Manufacturing Ltd., outstanding and listed on the stock exchanges.

EQUIPMENT MANUFACTURING AND DISTRIBUTING

You will notice on the Consolidated Statement of Income that our sales of manufactured goods increased from $2,948,818 in 1970 to $6,762,515 in 1971. The major reason for the sales increase was the purchase of Furnasman Supply Ltd. and its subsidiary companies. Furnasman distributes a wide range of domestic warm air gas and oil furnaces, related duct work and controls. Together with Bulloch Supply Ltd., our other similar distributing organization, we have established effective equipment distribution capability primarily throughout the four western provinces of Canada. In addition to domestic heating equipment, Bulloch Supply Ltd. also distributes makeup air equipment and other commerical products. The gross profit (revenue less cost of goods sold) realized in 1971 was $1,055,084 and represents a 15.6% profit margin, compared with a 13.8% profit margin in 1970. This comparison demonstrates that the sales increase was not achieved at the sacrifice of profit margin.

Approximately 55% of the equipment sold by Bulloch and Furnasman is manufactured by our wholly owned subsidiary, Inter-City Manufacturing Ltd., at the Company's plant in Winnipeg. These two subsidiary companies account for approximately 74% of the manufacturing plant's production. We have made considerable progress in reversing the direction of this facility which during 1970 reported a loss of $41,008 and is presently showing a modest profit of $62,195. We expect that improved product design, product specialization and improved production controls will result in Inter-City Manufacturing Ltd. becoming a most rewarding division of the Company.



Source of the Revenue Dollar
(In thousands of Dollars)

GAS EXPLORATION AND DEVELOPMENT

We commenced the year with a one-half interest in approximately 50,000 acres in the Tweedie (Lac la Biche) area of Alberta which included 13 wells and approximately 50 billion cubic feet of proven reserves concentrated in approximately one-half of the acreage. During the past year, three additional wells were drilled on the unproven acreage in the area. All three of these wells encountered gas zones with the result that the proven reserves have been increased by approximately nine billion cubic feet. A fourth well is to be drilled on the unproven acreage in the near future. Of the 16 wells currently in place in the acreage, 2 are in service and the remaining 14 are capped pending arrangement of sales contracts.

When we acquired our interest in the Tweedie properties, we agreed to commit an amount of $600,000 to be expended in partnership with the vendor in future development projects instigated by

him. We have mutually agreed that this fixed commitment no longer is appropriate; however, we will continue to work together on such future projects as are of mutual interest.

In an attempt to secure gas reserves in the United States, we entered into an agreement encompassing 65,000 acres in Montana. Four test wells drilled on the site failed to establish gas reserves and further exploration on this acreage therefore was abandoned.

During January, 1972, we entered into an agreement to explore and develop acreage in the Medicine Hat area of Alberta. The agreement enables Inter-City to earn a 100% interest in 26,400 acres subject to vendor royalties. The agreement consists of three phases. The first phase, completed during February of this year, required Inter-City to drill two test wells in the acreage at a cost of approximately $45,000. Both of these wells resulted in gas discoveries considerably in excess of minimum commercial volumes.

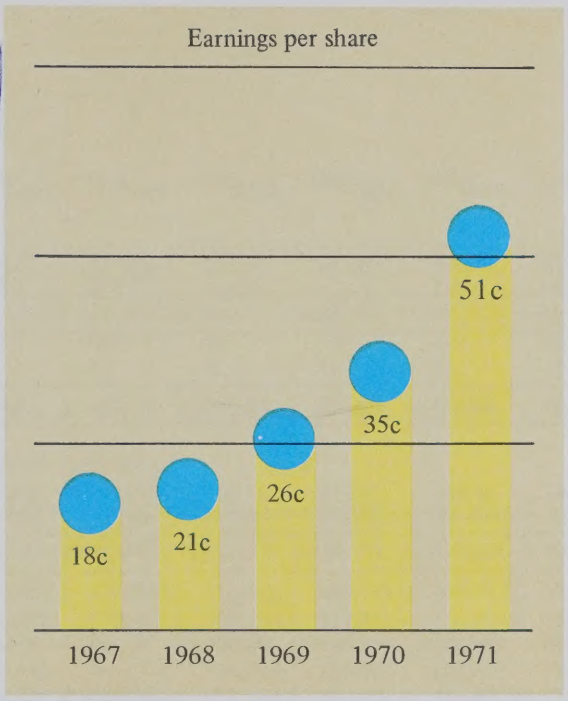
Accordingly, we have now committed to phase two of the program in which we are to expend approximately $400,000 in the development of eighteen additional wells.

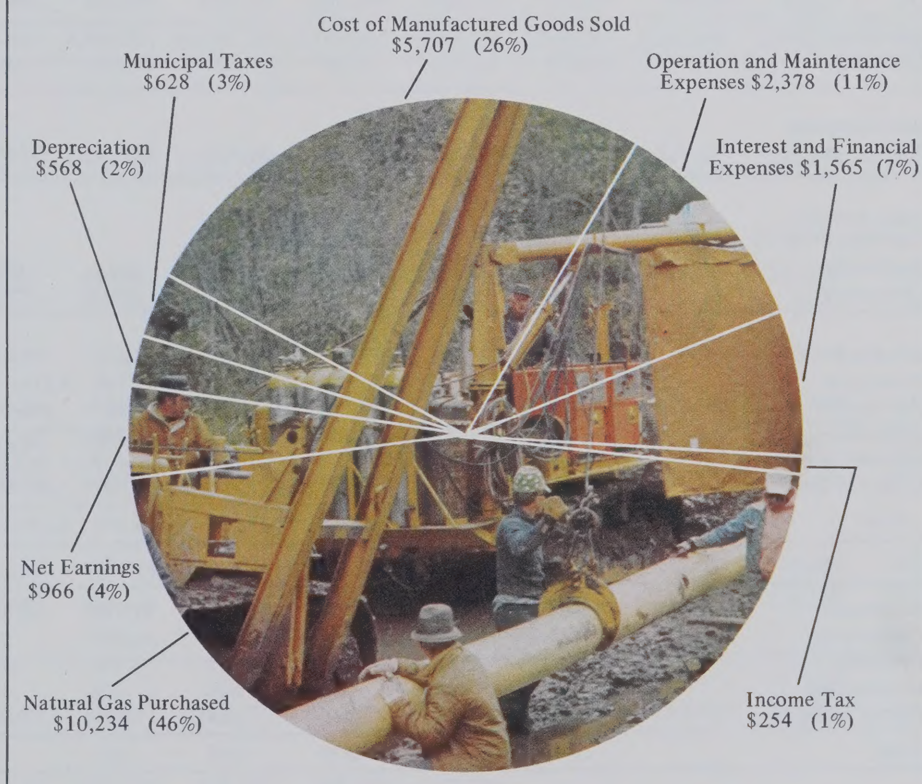
Phase 2 will firmly establish the potential of the area and the viability of proceeding with phase 3, commercial production and delivery.

During 1972, we expect to report significant progress in the development of this venture and a number of similar projects presently in the formative stages.

On behalf of the board of directors,

President





Use of the Revenue Dollar
(In thousands of Dollars)

10 year summary

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Year End Customers										
Residential	19,325	17,536	16,410	15,381	14,679	10,977	5,668	4,705	4,163	3,656
Commercial	3,049	2,827	2,671	2,493	2,370	1,730	1,063	881	769	713
Industrial	39	41	38	37	33	30	26	27	26	-
Interruptible	202	197	197	190	191	111	-	-	-	-
Large Contract	29	28	25	25	24	18	9	8	7	6
Total	22,644	20,629	19,341	18,126	17,297	12,866	6,766	5,621	4,965	4,375
Potential Customers										
Facing Mains	42,407	34,880	34,518	34,003	34,819	29,241	12,902	8,317	6,956	6,602
MCF Sales										
Residential	2,774,551	2,741,806	2,405,084	2,295,167	2,030,843	1,506,010	843,864	687,695	577,494	541,588
Commerical	1,907,707	1,829,431	1,524,522	1,387,853	1,285,689	881,912	589,278	478,406	403,764	428,901
Industrial	119,577	120,345	103,227	98,680	94,575	81,890	72,459	64,062	52,997	-
Interruptible	726,347	729,106	730,629	659,573	393,774	249,681	-	-	-	-
Special	20,375,487	10,966,489	8,105,189	8,857,280	6,860,361	6,983,967	1,047,478	962,949	894,197	864,707
Total	25,903,669	16,387,177	12,868,651	13,298,553	10,665,242	9,703,460	2,553,079	2,193,112	1,928,452	1,835,196
Degree Day										
Deficiency	10,928	10,394	10,185	9,853	10,920	11,059	11,505	10,887	10,080	10,887
Total Contracted										
Demand - MCF's	103,564	101,780	64,117	46,813	41,988	37,903	20,700	17,900	16,500	15,900
Average Use per Customer (Note 1) - MCF's										
Residential	155.3	161.3	152.5	158.4	154.1	151.2	171.0	158.7	151.9	161.2
Commerical	660.8	659.3	592.9	487.5	593.3	573.0	638.1	592.1	564.4	647.5
Gas Revenue - $										
Residential	3,460,905	3,203,920	2,838,125	2,532,214	2,311,799	1,714,506	721,848	601,361	508,351	471,428
Commercial	1,772,478	1,634,038	1,408,744	1,268,654	1,123,854	865,011	433,941	355,708	299,442	312,362
Industrial	87,378	93,539	72,095	66,598	66,165	54,879	48,859	42,746	35,403	-
Interruptible	439,536	470,595	474,517	422,251	276,339	162,292	-	-	-	-
Large Contract	9,619,690	4,883,052	3,308,234	3,225,848	2,653,590	2,442,494	564,198	508,970	471,185	450,601
Total	15,379,987	10,285,144	8,101,715	7,515,565	6,431,747	5,239,182	1,768,846	1,508,785	1,314,381	1,234,391
Average Revenue Per MCF										
Residential	$1.247	$1.169	$1.180	$1.103	$1.138	$1.138	$ .855	$ .875	$ .880	$ .870
Commercial	.929	.893	.924	.914	.874	.981	.737	.744	.729	.728
Industrial	.731	.778	.698	.675	.700	.671	.674	.667	.668	-
Interruptible	.605	.645	.649	.640	.702	.650	-	-	-	-
Large Contract	.472	.445	.408	.364	.421	.350	.539	.529	.527	.521
Total	.594	.628	.630	.565	.603	.540	.693	.688	.682	.673

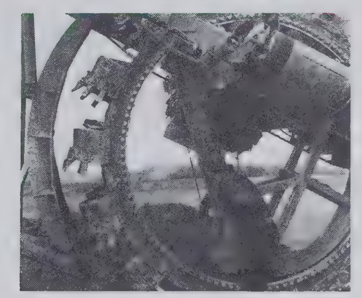
Note: 1) Average use per customer is based upon the effective number of customers serviced during the year.
2) Revenue from sale of natural gas includes deferred payment penalties.

* Includes revenue from sale of propane in the amount of $300,179.

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Plant - $										
Utility	28,832,619	25,505,143	17,266,956	15,296,379	15,124,876	11,375,363	6,013,640	4,072,038	3,530,536	3,345,521
Manufacturing	656,929	598,024	572,938	-	-	-	-	-	-	-
Total	29,489,548	26,103,167	17,839,894	15,296,379	15,124,876	11,375,363	6,013,640	4,072,038	3,530,536	3,345,521
Revenue - $										
Sale of natural gas (Note 2)	15,379,987	10,323,562	8,134,631	7,547,235	6,459,562	5,539,203	1,768,846	1,508,785	1,314,381	1,234,391
Sale of manufactured goods	6,762,515	2,948,818	2,499,923	-	-	-	-	-	-	-
Other Income	116,792	130,815	94,003	159,348	94,909	149,402	27,160	1,959	13,941	18,125
Total	22,259,294	13,403,195	10,728,557	7,706,583	6,554,471	5,688,605	1,796,006	1,510,744	1,328,322	1,252,516
Expenses										
Natural gas purchased	10,234,118	6,684,504	5,104,157	4,903,122	4,010,281	3,593,767	967,915	836,947	710,430	690,800
Cost of manufactured goods sold	5,707,431	2,541,428	2,013,251	-	-	-	-	-	-	-
Operation & maintenance	2,377,718	1,474,654	1,320,482	848,043	812,035	706,496	197,398	170,156	165,048	166,485
Municipal taxes	628,289	508,993	492,359	453,296	375,799	302,591	64,946	62,296	47,377	41,263
Depreciation	568,364	410,490	371,372	329,770	292,390	290,370	113,003	98,038	92,821	84,366
Total	19,515,920	11,620,069	9,301,621	6,534,231	5,490,505	4,893,224	1,343,262	1,167,437	1,015,676	982,914
	2,743,374	1,783,126	1,426,936	1,172,352	1,063,966	795,381	452,744	343,307	312,646	269,602
Income Deductions										
Interest on funded debt	1,173,872	609,827	434,682	368,582	360,561	283,113	132,334	98,750	101,844	89,175
Other interest	340,977	213,543	294,671	303,101	228,755	148,201	27,898	14,764	1,830	8,766
Amortization of financing expenses	27,814	28,444	23,136	31,493	33,480	28,682	10,029	9,246	9,246	8,595
Interest charged to construction	(41,567)	(9,360)	(13,538)	(17,182)	(19,145)	(16,166)	(52,983)	(10,944)	(1,499)	(4,437)
	1,501,096	842,454	738,951	685,994	603,651	443,830	117,278	111,816	111,421	102,099
	1,242,278	940,672	687,985	486,358	460,315	351,551	335,466	231,491	201,225	167,503
Provision for Income Taxes	254,438	264,290	98,841	10,986	10,264	7,700	3,632	17,581	49,019	38,300
	987,840	676,382	589,144	475,372	450,051	343,851	331,834	213,910	152,206	129,203
Minority Interest	21,830	-	30,273	1,043	1,874	1,388	-	-	-	
Consolidated Net Income for the Year	966,010	676,382	558,871	474,329	448,177	342,463	331,834	213,910	152,206	129,203
Dividends Paid										
Preferred Shares	292,488	220,557	226,394	229,750	229,750	73,500	-	-	-	-
Common Shares	198,427	158,269	124,354	119,330	119,330	119,330	109,387	99,442	87,012	74,582
Earnings per Common Share	$ .51	$ .35	$ .26	$ .21	$ .18	$ .22	$ .27	$ .21	$ .15	$ .13

Your Company distributes its manufactured equipment through more than 150 independent dealers located in Western Canada and Ontario.


Manitoba
Ontario
DAUPHIN
PORTAGE
LA PRAIRIE
Winnipeg
FORT FRANCES
INTERNATIONAL FALLS
THIEF RIVER FALLS
GRAND RAPIDS
Minnesota



auditor's report to the shareholders

We have examined the consolidated balance sheet of Inter-City Gas Limited and its subsidiary companies as at December 31, 1971 and the consolidated statements of income, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co.

March 10, 1972 — Chartered Accountants

consolidated statement of income

for the year ended December 31, 1971	1971	1970
REVENUE		
Sale of natural gas	$15,379,987	$10,323,562
Sale of manufactured goods	6,762,515	2,948,818
Rental and finance plan income	116,792	130,815
	22,259,294	13,403,195
EXPENSES		
Natural gas purchased	10,234,118	6,684,504
Cost of manufactured goods sold	5,707,431	2,541,428
Operation and maintenance (Note 8)	2,377,718	1,474,654
Municipal taxes	628,289	508,993
Depreciation	568,364	410,490
	19,515,920	11,620,069
	2,743,374	1,783,126
INCOME DEDUCTIONS		
Interest on funded debt	1,173,872	609,827
Other interest	340,977	213,543
Amortization of financing expenses	27,814	28,444
Interest charged to construction	(41,567)	(9,360)
	1,501,096	842,454
	1,242,278	940,672
PROVISION FOR INCOME TAXES (Note 4)	254,438	264,290
	987,840	676,382
MINORITY INTEREST	21,830	–
CONSOLIDATED NET INCOME FOR THE YEAR	966,010	676,382
NET INCOME PER COMMON SHARE (Note 7)	51c	35c

consolidated balance sheet
as at December 31, 1971

ASSETS	1971	1970
CURRENT ASSETS		
Cash	$ 526,118	$ 851,227
Accounts receivable, less provision for doubtful accounts (Note 1)		
- Trade and sundry	4,166,940	2,280,257
- Conditional sales contracts	271,830	216,027
Income taxes recoverable	20,365	61,436
Inventories - at the lower of cost or net realizable value	1,867,149	1,221,180
Prepaid expenses	64,734	50,398
	6,917,136	4,680,525
INVESTMENTS - at cost		
Note receivable less amount written off (Note 8)	182,935	256,933
Gas rights and development costs	623,352	–
Other	142,979	128,056
	949,266	384,989
FIXED ASSETS		
Property, plant and equipment - at cost	29,489,548	26,103,167
Accumulated depreciation	3,388,436	2,883,084
	26,101,112	23,220,083
DEFERRED CHARGES - at cost less amortization		
Financing expenses	879,498	419,149
Natural gas market development	318,359	273,768
Other	210,680	212,114
	1,408,537	905,031
	35,376,051	29,190,628

DIRECTOR DIRECTOR

SIGNED ON BEHALF OF THE BOARD

LIABILITIES	1971	1970
CURRENT LIABILITIES		
Bank advances (Note 1)	$ 5,453,253	$ 5,469,881
Accounts payable and accrued liabilities	3,515,736	2,538,555
Income taxes payable	76,681	310,664
Deferred income	25,085	30,775
Current portion of funded debt	465,000	199,500
Customers' security deposits	185,561	176,127
	9,721,316	8,725,502
CUSTOMERS' CONTRIBUTIONS IN AID OF CONSTRUCTION	196,006	182,315
FUNDED DEBT (Note 2)	15,465,768	12,585,541
MINORITY INTEREST IN SUBSIDIARY COMPANIES	131,784	120,433
	25,514,874	21,613,791
SHAREHOLDERS' EQUITY		
Capital stock (Note 3)		
Authorized		
- 141,970 cumulative redeemable first preference shares of the par value of $20 each issuable in series		
- 288,828 cumulative redeemable second preference shares of the par value of $20 each issuable in series		
- 5,000,000 common shares of no par value		
Issued and fully paid		
- 61,970 5¼% Series A First Preference shares	1,239,400	1,277,740
- 113,828 6½% Series A Second Preference shares	2,276,560	2,346,960
- 100,000 7 ½% Series B Second Preference shares	2,000,000	—
- 1,323,868 common shares	2,042,423	1,911,293
	7,558,383	5,535,993
Excess of book value of net assets at date of acquisition over cost of investment in shares of subsidiary companies	(12,206)	200,939
Retained Earnings	2,315,000	1,839,905
	9,861,177	7,576,837
	35,376,051	29,190,628

consolidated statement of source and use of working capital

for the year ended December 31, 1971	1971	1970
SOURCE OF WORKING CAPITAL		
Consolidated net income for the year	$ 966,010	$ 676,382
Items not affecting working capital –		
Depreciation	558,364	410,490
Amortization	84,460	74,277
Minority interest	21,830	–
Provision against note receivable	60,000	–
Provided from operations	1,690,664	1,161,149
Customers' contributions in aid of construction	13,691	5,566
Term bank loan	800,000	2,300,000
Proceeds from 9½% Promissory Note	2,529,727	2,026,604
Realization on investments	35,443	55,428
Proceeds from issue of common shares	94,910	–
Proceeds from issue of 7½% Series B Second Preference Shares	1,800,000	–
	6,964,435	5,548,747
USE OF WORKING CAPITAL		
Purchase of fixed assets (net)	3,510,369	8,426,057
Investment in natural gas rights	623,352	–
Redemption of funded debt and term loans	449,500	199,500
Dividends paid to shareholders	490,915	378,826
Redemption of preference shares	108,740	117,560
Purchase of shares of subsidiary companies	135,471	30,085
Financing and rate-hearing expenses	302,563	16,422
Natural gas market development program	73,325	28,323
Other deferred charges	11,240	34,668
Dividends paid to minority shareholders	18,163	18,865
	5,723,638	9,250,306
INCREASE (DECREASE) IN WORKING CAPITAL	1,240,797	(3,701,559)
WORKING CAPITAL DEFICIENCY – BEGINNING OF YEAR	4,044,977	343,418
WORKING CAPITAL DEFICIENCY – END OF YEAR	2,804,180	4,044,977

consolidated statement of retained earnings

for the year ended December 31, 1971	1971	1970
BALANCE – BEGINNING OF YEAR	$ 1,839,905	$ 1,542,349
Add: Consolidated net income for the year	966,010	676,382
	2,805,915	2,218,731
Dividends Paid -		
5¼% Series A First Preference Shares	67,081	70,136
6½% Series A Second Preference Shares	150,407	150,421
7½% Series B Second Preference Shares	75,000	–
Common Shares	198,427	158,269
	490,915	378,826
BALANCE – END OF YEAR	2,315,000	1,839,905

notes to consolidated financial statements

1. BANK ADVANCES

Book debts of the parent company and certain subsidiary companies have been pledged as security for bank advances in the amount of $3,253,253.

2. FUNDED DEBT

The details of funded debt of the Company and its consolidated subsidiaries are as follows:

	1971		1970	
	Current	Long-Term	Current	Long-Term
	$	$	$	$
INTER-CITY GAS LIMITED				
Term bank loan, bearing interest at 1% above bank's prime rate, due March 31, 1975	100,000	450,000	–	700,000
7% Debentures - Series B maturing 1982	35,000	1,200,000	50,000	1,250,000
8% First Mortgage Bonds - Series A maturing 1989	–	3,750,000*	–	3,750,000*
INTER-CITY GAS UTILITIES LTD.				
6% First Mortgage Bonds - Series A maturing 1977	37,500	187,500	37,500	225,000
6% First Mortgage Bonds - Series B maturing 1982	25,000	350,000	25,000	375,000
6% First Mortgage Bonds - Series C maturing 1985	57,000	1,815,000	57,000	1,872,000
7% Debentures - Series A maturing 1979	10,500	465,000	30,000	495,000
INTER-CITY PIPELINES LTD.				
Term bank loan, bearing interest at 1% above bank's prime rate, due March 31, 1975	200,000	500,000	–	–
Term bank loan, bearing interest at 1% above bank's prime rate, due December 31, 1973	–	1,900,000	–	1,600,000
Interim financing	–	–	–	2,000,000*
INTER-CITY MINNESOTA PIPELINES LTD. and ICG TRANSMISSION LIMITED				
9½% Joint and Several Promissory Note due January 1, 1991 secured by 8% Joint and Several First Mortgage Bonds due January 1, 1991	–	4,500,000*	–	–
*Premium on United States funds	–	348,268	–	318,541
	465,000	15,465,768	199,500	12,585,541

Under the provision of the various indentures, the Company is required to make the following sinking fund instalments and term bank loan repayments during the next five years:

Year	$
1972	465,000
1973	2,499,500
1974	724,500
1975	739,500
1976	639,500
	5,068,000

3. CAPITAL STOCK

a) By supplementary letters patent dated June 18, 1971 and July 5, 1971 respectively, the company's capital stock was changed as follows:

(i) Each of the issued and outstanding and each of the unissued common shares without par value was subdivided into two common shares without par value and the authorized capital of the company was increased by the creation of an additional 3,000,000 common shares without par value equal in all respects with the subdivided 2,000,000 common shares.

(ii) Designating 100,000 shares of the second preference shares with a par value of $20 each as 7½% Series B second preference shares.

During the year a total of 37,720 common shares were issued for cash and notes, and 100,000 7½% Series B second preference shares with a par value of $20 were each issued as fully paid for $18 cash.

b) In 1970 the directors of the company authorized the establishment of a stock purchase plan under which a trust was set up in accordance with Section 27(2) (c) of the Manitoba Companies Act to purchase fully paid shares of the company, for allocation to employees of the company. During the year the trustees purchased 10,400 common shares (1970 - 40,000 common shares) in exchange for a promissory note in the amount of $55,120 (1970 - $90,000). At December 31, 1971, after taking into account cash received of $18,900 from the trustees of the stock purchase plan, the total amount of notes receivable was $126,220, which is included in the balance sheet with "other investments".

c) The company has reserved 23,200 common shares of its authorized but unissued common shares without par value for issue to employees of the company upon exercise of options. Options have been granted to purchase 20,800 shares at $2.70 per share and 2,400 shares at $3.60 per share exercisable during the period ending December 31, 1974. During the year options have been exercised on 25,200 shares at $2.70 and 1,600 shares at $3.60.

d) The company has reserved a further 353,480 common shares for issue at $4.25 per share on the exercise of share purchase warrants during the period ending October 31, 1973. During the year, warrants were exercised for 520 common shares.

e) During the year the company issued 300,000 share purchase warrants which entitle the bearer to purchase one common share for $6.00 up to July 31, 1976 and for $7.00 up to July 31, 1981.

f) The company is required by its letters patent to purchase annually in the market within certain limits, 3% of the outstanding 5¼% Series A first preference shares, of which 1,917 were purchased and cancelled during 1971 (1970 - 1,976) and 3% of the outstanding 6½% Series A second preference shares of which 3,520 were purchased and cancelled during 1971 (1970 - 3,902).

4. DEFERRED INCOME TAXES

It is not considered appropriate for the company to follow the deferred tax allocation principle. The reasons for this are:

a) The Public Utilities Board of Manitoba has directed the company to provide only those income taxes currently payable in its financial statements and in calculating its rate of return for rate making purposes. The company is following the same practice for its utility operations in the Province of Ontario.

b) In its operations in Minnesota there are no significant timing differences between accounting income and taxable income.

c) It follows the general practice in the oil and exploration industry, which is not to provide for income taxes which are deferred by reasons of differences between income tax calculations and financial accounting practices relative to drilling and exploration expenses.

If the deferred tax theory had been followed in respect of timing differences relating to, (a) capital cost allowance in excess of recorded depreciation, (b) interest and overhead amounts recorded as the cost of depreciable assets, (c) financing and development expenses deferred to future periods and (d) drilling and exploration expenses, the provision for deferred taxes would have been $402,500 (1970 - $198,800) and the accumulated amount of such provision at December 31, 1971 would have been $1,706,600 (1970 - $1,304,100).

5. **ACCOUNTING PRINCIPLES**

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies.

The accounts of United States subsidiaries and divisions have been translated to Canadian dollars as follows:

Fixed assets at rates of exchange prevailing on the date of acquisition;

Long-term debt at the rate prevailing on the date of each transaction;

Current assets and liabilities at the rate on the balance sheet date;

Revenues and expenses, at average rates in effect during the relevant period.

6. **COMMITMENTS**

a) Under the terms of the agreement whereby the company purchased 51% of the outstanding shares of Furnasman Supply Ltd., it is committed to purchase the remaining 49% on April 30, 1975 for a consideration calculated on the earnings of that company during the four years ending December 31, 1974. In addition, the balance of the purchase price, in respect of the 51% of the shares currently held, is payable over a four-year period ending April 30, 1976 in either cash or shares at the option of the company and is subject to a maximum consideration of $123,000.

b) Pursuant to an agreement dated January 12, 1972, the company entered into a program of joint exploration and development in petroleum and natural gas. This program could require the company to expend an estimated amount of $1,650,000 in 1972 if all phases are developed.

7. **NET INCOME PER COMMON SHARE**

The net income per common share is calculated on a weighted average number of shares outstanding during the year. Based on the assumption that the proceeds received from exercise of the outstanding share purchase warrants and stock options can earn a rate of return equivalent to that earned on the book value of the common shareholders' equity during 1971, there will be no dilution of the 1971 net income per common share.

8. **SUPPLEMENTARY INFORMATION**

a) Included in other income are the following amounts:

	1971 $	1970 $
Income from investments	18,374	18,927
Discount on shares and debentures purchased for cancellation	19,490	20,509

b) Included in operating and maintenance expense are the following amounts:

	1971 $	1970 $
Amortization of natural gas market development cost and other deferred charges	56,646	45,833
Provision against note receivable	60,000	—
Oil and gas exploration expenses	92,327	—
The aggregate remuneration paid to directors and senior officers of the company, in their capacity of director, officer or employee	178,720	144,456